The Manufacturers Hanover
Economic Report

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How's That Again?

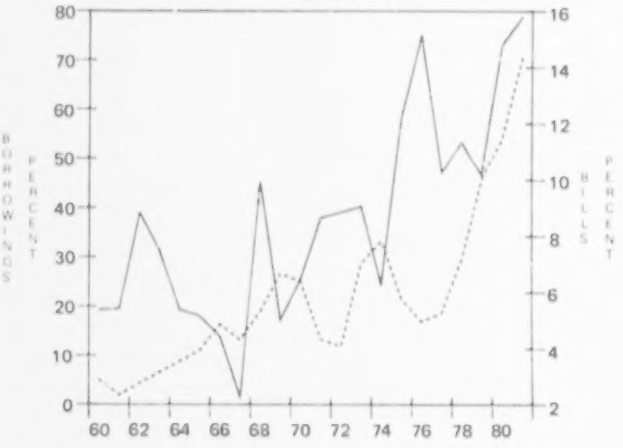
In last month's Economic Report, I discussed the true size of Washington's annual financing requirements by presenting data showing that there exists additional Federal credit needs which amount to several times the size of the reported budget deficit. And by comparing these Federal borrowing needs with the supply of savings that the economy generates, I showed how less and less was left for the private sector. I said that, to make up for this, the Federal Reserve in the past expanded the money supply—but that this eventually produced increased inflation. And I concluded that since the Fed is no longer following a policy of replacing the funds Washington borrows in order to hold down interest rates, the result was first high interest rates, as borrowers were crowded out of the financial markets, then slow (now no) growth, as more and more firms found that the cost of borrowing was too much for them to absorb or pass along.

Since some economists—both in and out of the Administration—insist that budget deficits don't damage the economy and that there is no direct relationship between red ink and inflation, high interest rates and the nation's money supply growth, I thought I would continue where I left off last month by showing you the relationships that have actually prevailed over the past two decades. I plan to use charts, rather than tables or complicated equations, so that the linkages will be unmistakeably clear even to the lay person. And, as you know, just using numbers alone can be misleading, since certain periods can be omitted to prove a point. Once you study these charts, you will be able to judge for yourself what lies ahead, if Washington continues to run large and growing deficits (on- and off-budget) while the Federal Reserve pursues its recently-adopted policy of concentrating on the money and credit aggregates and paying little attention to interest rates.

The Fed Accommodated the Treasury . . .

First, some points of agreement. The reported budget deficit has, indeed, had little relationship with interest rates—especially in recent years. This is because, as I said—and demonstrated—in the November Economic Report: "Since 1973, the reported budget deficit has provided an increasingly distorted picture of trends in Federal finance." There has been such a proliferation of off-budget financing since the early 1970s that by fiscal year 1981 the budget deficit represented less than 40 per cent of Washington's total credit needs. Plainly, the entire Federal financing "iceberg" must be looked at nowadays to get the true picture of Washington's impact on the credit markets.

CHART I
TOTAL FEDERAL BORROWINGS AS A % OF TOTAL SAVINGS (LINE) VS. AVERAGE MARKET YIELD ON 3-MONTH T-BILLS (DOT)



Second, I would not have expected to see a direct link between even total Federal financing and interest rates over the past ten or 20 years. This is because, until recently, the Federal Reserve used to conduct monetary policy in such a way as to minimize—if not reverse—the immediate upward pressure on interest rates that can accompany Treasury financing by purchasing the securities the government sells. In other words—when the Fed ran a monetary policy that mainly sought to achieve certain interest rate objectives, it found itself at times "monetizing" Washington's financing needs—that is, replacing the funds that Washington drew out of the credit markets in order to keep money available and interest rates low. Chart I clearly shows that, if anything, there was an *inverse* relationship between total

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Federal borrowing needs and three-month Treasury bill rates from 1960 until the end of 1979. (But see how both lines trend upward—this reflects the bidding up of "real" interest rates over time from the increased competition for funds.)

. . . Until Two Years Ago . . .

Notice however, what has happened since the end of 1979. Short-term interest rates (as measured by the three-month Treasury bill) seem to have established a direct relationship with Federal borrowing. The reason for this sudden shift is not hard to find. Late 1979 was when the Federal Reserve changed its policy from managing interest rates to managing the money and credit aggregates. Since the Fed was no longer attempting to match the demand for funds, but rather, was concentrating on its supply, the cost of money (interest rates) quickly reflected the pressures the government was putting on the credit markets—pressures that may well intensify in the current fiscal year, if the Administration's recent estimates of its budget deficit alone are any guide.

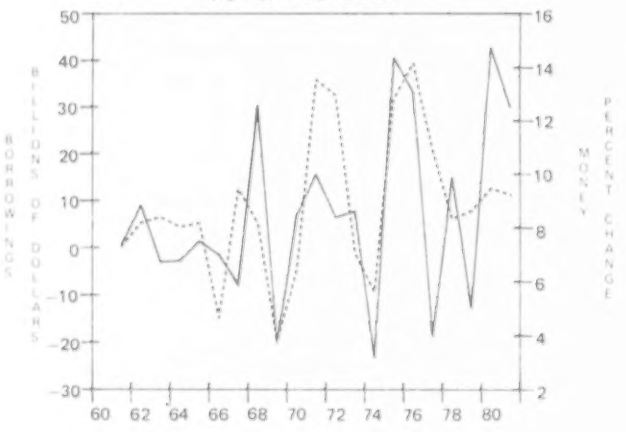
CHART II
TOTAL FEDERAL AND FEDERAL-RELATED BORROWINGS (LINE) VS. MONEY SUPPLY M2 AT YEAREND (DOT)

Now let's look at the consequences of the Fed's earlier policy of ignoring the monetary aggregates and concentrating on interest rates. Logic would tell you that the Federal Reserve cannot control the price of money (interest rates) and its supply simultaneously unless the demand for funds is fixed. Under a monetary policy that called for achieving certain interest rate objectives, the Fed implemented open-market operations whose procedures resulted in monetization of the government's debt. If Washington's financings tended to push interest rates above the range the Federal Reserve was seeking to achieve, the Fed would purchase the government's securities in order to bring rates back within their target range—in effect, expanding the supply of money and credit in the economy.

. . . Producing Excess Money Growth . . .

Chart II demonstrates what has happened to monetary growth over the past two decades as total Federal borrowing needs have risen. As you can see, there is a fairly close relationship between the trend in Federal borrowings and the long-run growth in the money supply, M-2. And since this is such a critical relationship, I am showing it to you another way—annual changes. Chart III presents the annual dollar changes in total Federal financing needs compared with annual percent changes in the money supply, M-2. Without getting technical, I can tell you that there was (until 1980) a pretty close link between the two, from a statistical standpoint—but you can see this for yourself in these charts.

CHART III
TOTAL FEDERAL AND FEDERAL-RELATED BORROWINGS (LINE) VS. MONEY SUPPLY M2 (DOT) (12 MONTH CHANGES)



. . . And Accelerating Inflation

The significance of the past relationship between Federal borrowing and money growth is its implication for inflation. In the words of Beryl W. Sprinkel, Under Secretary of the Treasury for Monetary Affairs: "A policy of monetizing the debt, designed to alleviate upward pressure or rises in interest rates, ignores the fact that increased money growth must accompany Federal Reserve purchases of government debt. Such money growth generates inflation and inflationary expectations. The Reagan Administration recognizes the connection among monetization of the deficit, money growth and inflation . . ."

To be sure, as Mr. Sprinkel went on to say, "There is no technical or legal reason for the Federal Reserve to monetize budget deficits." So those who say that a budget deficit (as well as the additional off-budget financings) need not *automatically* produce inflation (via excess money growth) are theoretically correct. However, I am not talking about theory—I am telling you the facts, and the facts are that the huge Federal financings of the past *did* lead to excess money growth because the Federal Reserve concentrated on achieving interest rate objectives. And excess money growth, as you can see from Chart IV, is closely linked with inflation.

One of the first rules one learns in algebra is that if two things are equal to the same thing, they are equal to each other. Expressed as a set of simple equations:

- *If A = B*
- *And B = C*
- *Then A = C*

I hope students of algebra will forgive me if I use this to describe the link that existed between Federal borrowings and inflation:

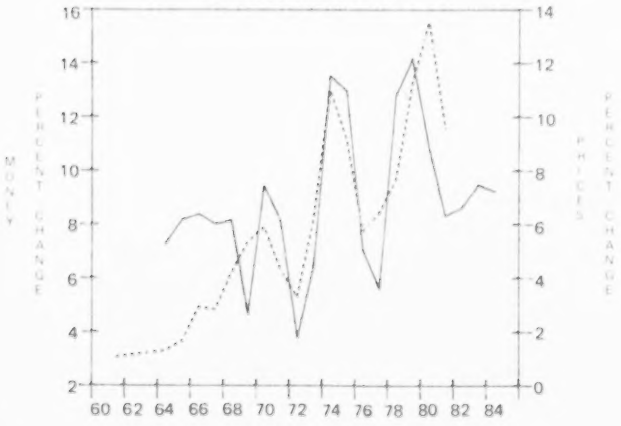
- If Federal borrowings caused excess money growth
- And excess money growth caused inflation
- Then Federal borrowings caused inflation.

Chart V shows that there *was* a link between the trend in Federal borrowings and the long-run trend in consumer prices. It was not as tight a relationship as the ones linking Federal financing to money growth or money growth to inflation because it was indirect. But it was there, nonetheless.

New Pressures Under Interest Rates . . .

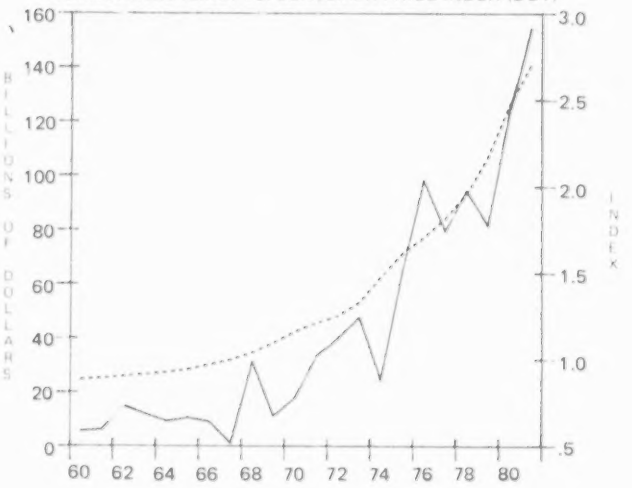
Today, of course, the link between Federal financing and inflation may no longer exist. This is because the Federal Reserve has stopped trying to control interest rates (which led to monetization of the debt) and has embarked on a course of attempting to control the monetary aggregates. Under this type of monetary policy, government financing will not result in the creation of new money but rather, the transfer of financial resources to the public sector from you and me in the private sector. This means there will be less money for business to borrow for capital spending, or for individuals to borrow to buy a house, car or any other big-ticket item.

CHART IV
MONEY SUPPLY M2 MOVED FORWARD 36 MONTHS (LINE) VS. CONSUMER PRICE INDEX (DOT) (12 MONTH CHANGES)



In these circumstances, real interest rates will remain high. This is because Federal financing by selling debt

CHART V
TOTAL FEDERAL AND FEDERAL-RELATED BORROWINGS (LINE) VS. CONSUMER PRICE INDEX (DOT)



securities adds to the demand for credit in the financial markets without there being a commensurate increase in credit supplies. Since the markets must clear—that is, demand must equal supply—and since sufficient supplies of credit will not be forthcoming, demand from the private sector must give way to public sector demands.

In markets free of controls, such as the financial markets, this process occurs by the price of money (interest rates) rising until enough private sector participants are "crowded out" i.e., decide that credit is too costly to borrow. Quoting Beryl Sprinkel one more time: "These are the adverse economic effects of a budget deficit: It bids up real interest rates, takes credit funds away from private borrowers, and re-allocates resources from the private to the public sector and thereby restricts economic growth. These effects are real and cannot be ignored."

. . . Will Curb Economic Growth

If you want further proof, just look at what high real interest rates did to the economy in 1981. Although interest rates as measured by the banks' prime lending rate twice before reached—or exceeded—20 per cent, they were not as onerous then as they were in 1981 because in real terms (adjusting for inflation) credit was not all that costly. I'll have more to say on this subject next month, when I go through my quarterly review of business conditions. For now, I hope I have convinced you that there *is* reason to be concerned that the existence of the government's huge financing needs will prevent the economy from enjoying healthy rates of real growth with reduced inflation and lower interest rates. M

Season's Greetings

...and a HAPPY NEW YEAR to all!

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The Manufacturers Hanover Economic Report

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Quarterly Business Conditions Analysis

What is intriguing about the economy's decline in the fourth quarter of 1981 is not that it is part of a new recession — the second recession in as many years, or even that it is a continuation of an up-down pattern that stretches back to early 1979. Rather, the significance of this downturn is how it began and what Washington is doing about it. More than any dissection of the fourth-quarter's GNP, an analysis of these two aspects of the current decline provides important clues regarding how deep it will go, when it will end, and what kind of recovery is in store.

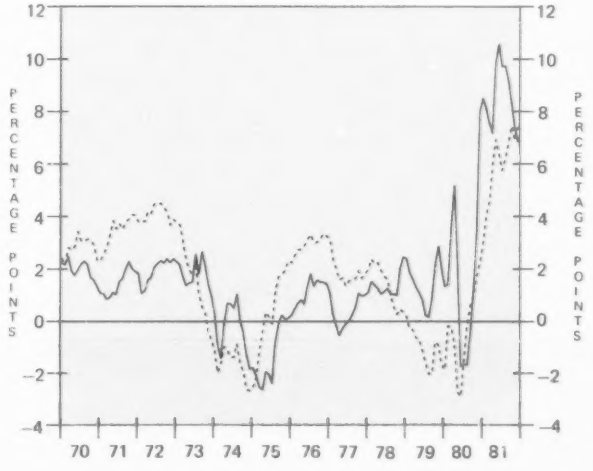
This is not to say that a close look at the fourth quarter's figures is totally unimportant. Indeed, one thing stands out that, if nothing else, suggests that the current decline still has some distance to go. Even though business slashed output at one of the fastest rates in recent memory, inventories continued to accumulate. Since excess stocks were the principal reason for the curtailment of production schedules in the first place, it is clear that further cutbacks lie ahead as business struggles to get stocks back into line with sales.

Nevertheless, the question must be answered concerning the reason why stocks grew excessively in the first place. One would assume that with the economy remaining as soft (and unpredictable) as it has for so many years — not to mention advances in inventory management and control thanks to widespread use of computers — businessmen would have erred on the side of caution when it came to monitoring levels of unsold goods. While many did, most were unprepared for the sudden drop in final sales that developed during the summer. In turn, this development traced to the high level that short-term interest rates reached late in the spring.

High Real Interest Rates ...

To be sure, it was not the first time that short-term rates had scaled these heights. The prime lending rate of the commercial banks, which reached 20½ percent last May, was even higher at the end of 1980 and the start of 1981, when it hit 21½ percent. And it first reached 20 percent back at the end of 1979. At that time, great concern was expressed that the economy would plunge into deep recession. After all, interest rates this high had not been seen in at least 100 years — if ever. After a couple of months, however, it became apparent that, as high as a 20 percent prime rate was, it was not as onerous as it seemed because the rate of inflation was high, too. Prices, as measured by the consumer price index, were rising at an annual rate of about 18 percent in the first quarter of 1980, while at the wholesale level, the annual rate touched 20 percent. This meant that the real cost of borrowing funds — the "real" interest rate — was not only not out of line with historical precedent — it actually disappeared before long (see Chart I).

CHART I
REAL PRIME RATE (LINE) VS.
REAL AA UTILITY RATE (DOT)



The level of real interest rates has great significance. When it is within "normal" range, it means that money costs can either be absorbed, or passed along. For the consumer, it is neither an incentive nor a deterrent to borrow. Thus, while nominal or quoted interest rates appeared high, in reality, when the equally high rate of inflation was taken into account, interest rates were not high at all. Thus, they did not pull the economy down as many had feared (or, in some cases, hoped). Of course, the real GNP did decline later on in 1980 — but that was due to another development that will be discussed later on.

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The decline in second-quarter 1980 pulled down interest rates but when the economy revived at midyear, interest rates soon followed. By yearend 1980 the prime again hit 20 percent — indeed, it reached an even higher level of 21½ percent. Again, fears developed for the economy, but again, these fears proved unfounded. This was because the rate of inflation, while down somewhat from earlier in the year, was still high enough to keep the "real" interest rate from reaching a level high enough to discourage borrowing, thus spending on goods and services. Indeed, first-quarter 1981's real GNP shot up at the fastest rate in three years.

Partly because of the associated jump in productivity (which offset rising labor costs, an important component of total business costs) and partly because of the earlier stagnation of the U.S. and other economies, the rate of inflation suddenly slowed. From 13 percent in fourth-quarter 1980, the consumer price index's rate of rise sank to 7½ percent in second-quarter 1981. Interest rates fell briefly, then rose again, with the prime rate, for the third time in about a year and a half, reaching the 20 percent zone.

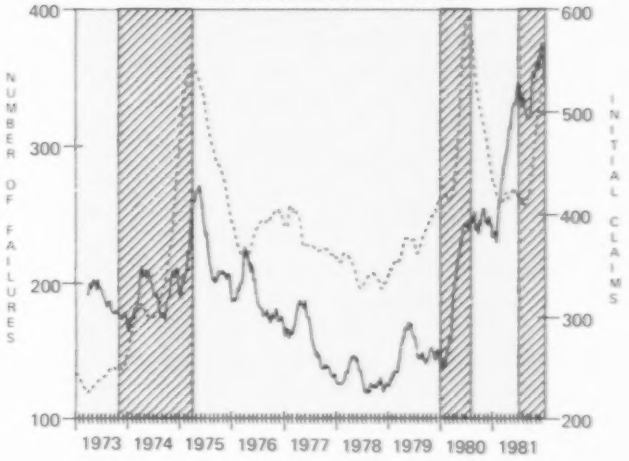
Interestingly, one fear disappeared and another arose. Since businessmen saw they could cope with this level of interest rates twice before, they greeted this third scaling of 20 percent with widespread indifference. Borrowing was not only not curtailed — it was stepped up. Fears of recession were nowhere to be seen among a business and banking community very much impressed with the Administration's proposed economic program. Indeed, the casual air surrounding last spring's level of interest rates led some analysts to express concern that the economy had "learned to live with high interest rates."

... Put the Kibosh on the Economy

Such concerns proved to be as erroneous as the earlier ones dealing with the belief that high nominal rates were about to push activity down. For even as businessmen were sure that they could live with these rates, a growing number found that they could not. This is because the much-reduced rate of inflation referred to above turned high but familiar nominal interest rates into unprecedented real interest rates. A 20½ percent prime rate with a twelve-month inflation rate of 10 percent or less implied a real cost of borrowing money of over 10 percent. This proved to be the straw that broke the economy's back.

Before the summer was too old, a number of businesses found that they could neither absorb such a high real cost, nor pass it along. (A low inflation environment means any price increase tends to stand out more than would be the case in a period of rapidly rising prices.) One by one, companies closed their doors. Business failures shot up and before long were running 45 percent above the year before (see Chart II). Not surprisingly, orders for merchandise were cancelled, causing goods produced but unsold to pile up. These two developments led to a sudden jump in layoffs; the unemployment rate went from seven percent in July to eight percent three months later.

CHART II
BUSINESS FAILURES [LINE] VS. INITIAL UNEMPLOYMENT INSURANCE CLAIMS (000) [DOT]
THIRTEEN WEEK MOVING AVERAGES



As people lost their jobs, their confidence in the outlook began to erode — not to mention their buying power. Retail sales softened just at a time when merchants had ordered extra goods in anticipation of higher Holiday sales. When these great expectations failed to materialize, retailers retrenched, causing further increases in unsold goods and pressures on production schedules. You can see how this became a circular process, producing the decline in the economy reported for the fourth quarter of 1981, and laying the groundwork for a further drop in the current quarter.

Although the proximate cause of the current decline in economic activity — the need to reduce excess inventories — is not dissimilar from that which caused previous slides, the ultimate cause, high real interest rates, was different. Past declines — at least stretching back to the mid-1960's — were caused by a phenomenon known as a "credit crunch." This was a period in time — however brief — when money was unavailable at any price, no matter how big or creditworthy the borrower. It was such a crunch that sent the economy down in second-quarter 1980 as businessmen, consumers and bankers misinterpreted the Federal Reserve's credit controls to mean that borrowing was to be *severely* curtailed. The steepest part of the 1973-75 recession began in September, 1974, after the banks had cut back their lending as political pressures kept them from raising their prime rates high enough to cover their incremental money costs. Similar crunches led to the recession of 1970 and the mini-slump of late 1966-early 1967.

Economic Policy Remains Tight ...

The other major difference between the current decline and declines past is the reaction of policymakers

at the Federal Reserve, in the Administration and the Congress. In the past, whenever evidence of a drop in economic activity became apparent, Washington policymakers would leap into action. The Fed would push interest rates down and inject additional funds into the economy in order to encourage borrowing, investing and spending. On the fiscal side, spending would be cranked up, while talk of tax cuts would become rife. This time, things are different, and it is these differences in Washington's response to the decline, along with its unique cause, that will shape the economic and financial outlook for the balance of this year, and, quite possibly, 1983 as well.

As far as fiscal policy is concerned, the tax cuts that were enacted last year should not be considered anti-recession in nature. For one thing, they were designed to encourage personal saving and corporate investment, neither of which produces more spending, as an immediate prospect. And while the Administration *now* considers the personal tax cuts anti-recessionary, they are, or will soon be, offset by: (1) higher Social Security taxes that took effect January 1; (2) the effects of inflation, however reduced, as it pushes us all into higher tax brackets; (3) the growing incidence of state and local governments raising their taxes. On the spending side, if anything, the pressures are to cut — not increase.

Monetary policy is different as well. The Federal Reserve is not only not attempting to push interest rates down, it is not even being overly generous with the money supply — its primary objective. Last year the Fed undershot its growth targets for M-1 for the first time since they were first made public in 1975. What is more, as long as the Fed concentrates on money supply objectives, any increase in real economic activity will produce an immediate jump in interest rates. To run assembly lines faster, business will require more working capital, which will put it in competition with the Treasury for a limited supply of loanable funds. Plainly, rising interest rates from today's still high levels will not permit any economic recovery to last long.

... So the Real GNP Will Go Nowhere

With this in mind, let us examine the economic and financial outlook for 1982. The table on the back describes an economy in 1982 not very different in top-line real GNP respects from its predecessors in 1981, 1980 and 1979. Real growth may reappear before mid-year, but it is unlikely to be long-lasting. By yearend, the economy may well be falling once again. This scenario is based on several assumptions which are spelled out at this time. First, it is assumed that the Federal government will continue to be a huge borrower of funds — regardless of whether the reported deficit in Washington's budget amounts to $109 billion, $100 billion, $80 billion or whatever. As readers of this Report will recall (see November and December 1981), Washington's financing needs are far greater than that suggested by the deficit alone. Second, it is assumed that the Federal Reserve will stick to its current monetarist-oriented monetary policy and more or less ignore changes in the demand for funds. Such a policy, as noted above, produces volatile interest rates that rise at the slightest hint of more demand.

As nominal interest rates rise, real interest rates will move up even faster. This is because the rate of inflation is expected to recede further, due to ample supplies of foods and fuels, smaller wage increases (and more labor givebacks), soft commodities' prices worldwide, declining mortgage rates and home prices, and, of course, tight money. Since the economy has clearly demonstrated that it *cannot* live with high real interest rates, any rise that does occur will be brief and self-limiting: Business will contract, the demand for funds will shrink, and interest rates will fall again.

Thus, while interest rates will continue to be volatile (as they must, when the Federal Reserve concentrates on managing the supply of money rather than its price) and may well rise later this year as the current slide ends, they don't appear likely to scale new heights. In addition, as noted above, the rate of inflation should continue to slow. These salutory developments, however, will be weighed by the politicians and their various constituencies against unemployment, whose rate undoubtedly will soon reach a new postwar high, and whose actual numbers can already be compared with the end of the Great Depression. The implication here is that political pressures may alter the scenario described above.

Even now, such pressures have descended upon the Federal Reserve. It is becoming increasingly difficult to find a businessman, commercial banker, or "man on the street" who still expresses 100 percent support for the central bank's monetary policy. The Congress has long been critical of the Fed; recently, the Administration joined the fray. What this means is that the Federal Reserve may decide to change some of its tactics, since, like the Supreme Court in the Roosevelt era, it reads the newspapers. What these changes are and how they are received by the financial markets will be a key factor in 1982's economic and financial outlook.

If the Fed stands fast, 1982 will be an uncomfortable year for politicians who have to run on this year's record. Unemployment will be high; sales and profits low. But inflation will recede and interest rates should eventually get down to the point where a more sustained recovery (*after* Election Day 1982) can get underway. If the Fed gives in and expands the supply of money and credit enough to push interest rates down relatively quickly, the "real" economy may look somewhat better — but at the possible cost of rekindling inflation and the expectation of inflation. This means eventually even higher interest rates and a poorer outlook for 1983. I think the Fed will resist these pressures, but we won't know for sure for several more months. H

January, 1982

MHT FORECAST OF GROSS NATIONAL PRODUCT

(Seasonally Adjusted Annual Rates)

In $ Billions

			< ACTUAL						PROJECTED >					
	YEAR 1980		1981				YEAR 1981		1982				YEAR 1982	
	LEVEL	% CH	I	II	III	IV	LEVEL	% CH	I	II	III	IV	LEVEL	% CH
Gross National Product	**2626.1**	**8.8**	2853.0	2885.8	2965.0	2984.9	**2922.2**	**11.3**	3006.5	3078.3	3140.6	3195.6	**3105.2**	**6.3**
GNP: $72	**1480.7**	**−0.2**	1516.4	1510.4	1515.8	1495.6	**1509.5**	**2.0**	1488.5	1493.8	1506.6	1502.6	**1497.9**	**−0.8**
% Change, Annual Rates	**−0.2**		8.6	−1.6	1.4	−5.2	**2.0**		−1.9	1.4	3.5	−1.1	**−0.8**	
Consumption	**1672.7**	**10.7**	1810.1	1829.1	1883.9	1909.5	**1858.1**	**11.1**	1947.4	1993.8	2027.9	2067.1	**2009.0**	**8.1**
Durables	**211.9**	**−0.2**	238.3	227.3	236.2	226.4	**232.0**	**9.5**	237.7	245.9	250.8	252.7	**246.8**	**6.4**
Non-Durables	**675.7**	**12.2**	726.0	735.3	751.3	760.9	**743.4**	**10.0**	765.8	774.8	783.9	797.5	**780.5**	**5.0**
Services	**785.2**	**12.8**	845.8	866.5	896.4	922.2	**882.7**	**12.4**	943.9	973.1	993.2	1016.8	**981.7**	**11.2**
Investment	**395.3**	**−4.9**	437.1	458.6	463.0	443.6	**450.6**	**14.0**	424.0	443.4	461.0	453.7	**445.5**	**−1.1**
Non-Residential	**295.9**	**5.8**	315.9	324.6	335.1	332.6	**327.1**	**10.5**	330.9	333.7	337.7	336.1	**334.6**	**2.3**
Producers Durable Equipment	**187.1**	**2.0**	198.7	201.5	206.8	201.2	**202.0**	**8.0**	201.6	204.4	210.7	206.6	**205.8**	**1.9**
Structures	**108.8**	**13.0**	117.2	123.1	128.3	131.4	**125.0**	**14.9**	129.3	129.3	126.9	129.5	**128.7**	**3.0**
Residential	**105.3**	**−11.2**	116.7	110.7	100.5	93.4	**105.3**	**0.1**	93.9	107.2	120.1	117.4	**109.7**	**4.1**
Inventory Changes	**−5.9**		4.5	23.3	27.5	17.6	**18.2**		−0.8	2.5	3.2	0.2	**1.3**	
Net Exports	**23.3**		29.2	20.8	29.3	16.0	**23.8**		15.8	14.1	15.2	18.5	**15.9**	
Government Purchases	**534.7**	**12.9**	576.5	577.4	588.9	615.7	**589.6**	**10.3**	619.2	626.9	636.6	656.3	**634.7**	**7.7**
Federal Defense	**131.7**	**18.4**	145.2	148.2	154.1	165.8	**153.3**	**16.4**	169.9	173.1	177.7	196.0	**179.2**	**16.9**
Federal Civilian	**67.2**	**18.5**	76.4	71.3	72.2	81.0	**75.2**	**11.9**	75.6	77.3	78.7	76.9	**77.1**	**2.5**
State & Local	**335.8**	**9.8**	354.9	357.9	362.5	369.0	**361.1**	**7.5**	373.7	376.5	380.2	383.5	**378.5**	**4.8**
Final Sales: $72	**1483.6**	**0.7**	1517.8	1499.6	1500.9	1487.1	**1501.4**	**1.2**	1488.6	1492.8	1505.4	1502.6	**1497.3**	**−0.3**
% Change, Annual Rates	**0.7**		6.9	−4.7	0.3	−3.6	**1.2**		0.4	1.1	3.4	−0.7	**−0.3**	
GNP Price Index (1972 = 100)	**177.4**	**9.0**	188.1	191.1	195.6	199.6	**193.6**	**9.1**	202.0	206.1	208.5	212.7	**207.3**	**7.1**
% Change, Annual Rates	**9.0**		9.8	6.4	9.9	8.4	**9.1**		4.9	8.3	4.7	8.4	**7.1**	
PCE Deflator (1972 = 100)	**178.9**	**10.2**	188.5	191.5	195.7	199.3	**193.8**	**8.3**	201.8	205.6	207.9	211.3	**206.7**	**6.7**
% Change, Annual Rates	**10.2**		8.0	6.5	9.1	7.6	**8.3**		5.1	7.8	4.6	6.7	**6.7**	
Consumer Price Index (1967 = 100)	**247.0**	**13.5**	263.6	268.4	276.1	281.3	**272.4**	**10.3**	284.9	289.6	293.6	298.0	**291.5**	**7.0**
% Change, Annual Rates	**13.5**		10.8	7.5	11.9	7.8	**10.3**		5.2	6.8	5.6	6.1	**7.0**	
Total Personal Income	**2160.3**	**11.1**	2319.7	2368.5	2441.7	2484.4	**2403.6**	**11.3**	2511.9	2578.1	2626.3	2681.4	**2599.4**	**8.1**
Disposable Personal Income	**1821.7**	**11.0**	1947.8	1985.6	2042.0	2086.4	**2015.5**	**10.6**	2111.7	2163.5	2234.0	2277.1	**2196.6**	**9.0**
Savings Rate	**5.6**		4.6	5.4	5.2	6.0	**5.3**		5.2	5.3	6.7	6.6	**6.0**	
Employment Rate	**57.7**		57.7	58.0	57.7	57.0	**57.6**		56.7	56.7	56.8	56.9	**56.8**	
Unemployment Rate	**7.1**		7.3	7.4	7.2	8.4	**7.6**		9.2	9.4	9.4	9.5	**9.4**	
Indus. Production (1967 = 100)	**147.0**	**−3.6**	151.8	152.5	153.0	146.3	**150.9**	**2.6**	144.1	145.1	148.3	148.5	**146.5**	**−2.9**
Housing Starts (000)	**1303.5**	**−24.0**	1390.7	1176.3	968.0	902.7	**1109.4**	**−14.9**	1021.6	1224.1	1272.7	1324.5	**1210.7**	**9.1**
Domestic Auto Sales (000)	**6595.8**	**−19.9**	7400.0	5566.7	6933.3	5184.0	**6271.0**	**−4.9**	6382.2	6782.3	7120.4	6731.2	**6754.0**	**7.7**
Corporate Pre-Tax Profits	**245.5**	**−3.8**	257.0	229.0	234.4	205.8	**231.6**	**−5.7**	180.4	188.9	209.4	208.2	**196.7**	**−15.0**
− Taxes	**82.4**	**−6.0**	87.7	76.4	78.1	66.6	**77.2**	**−6.3**	55.0	58.3	66.1	66.0	**61.3**	**−20.5**
Net Profits	**163.2**	**−2.7**	169.2	152.7	156.3	139.2	**154.4**	**−5.4**	125.4	130.7	143.3	142.2	**135.4**	**−12.3**
− Dividend Payments	**56.0**	**11.7**	59.6	62.0	64.8	66.0	**63.1**	**12.7**	67.3	69.2	72.1	75.4	**71.0**	**12.5**
Undistributed Profits	**107.2**	**−8.9**	109.6	90.6	91.5	73.2	**91.2**	**−14.9**	58.1	61.4	71.2	66.9	**64.4**	**−29.4**
+ Depreciation	**158.3**	**13.4**	172.8	179.9	187.7	194.9	**183.8**	**16.2**	211.1	216.4	221.9	227.5	**219.2**	**19.3**
− Inventory Profits	**45.6**	**7.1**	39.2	24.0	25.3	20.9	**27.4**	**−40.1**	16.6	29.1	31.0	35.5	**28.0**	**2.5**
Net Cash Flow	**219.8**	**2.4**	243.2	246.5	253.9	247.2	**247.7**	**12.7**	252.7	248.7	262.1	258.8	**255.6**	**3.2**